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Russel Metals Inc.

1999 ANNUAL REPORT

Meeting the cycle Challenge

A Performance-Focused North American Metals Distribution Company

Russel Metals is one of the largest metals distribution and processing companies in North America, servicing customers and suppliers primarily in Canada, the United States, and on occasion worldwide. The Company is comprised of three metals distribution operations: service center distribution; energy sector pipe, tube, valve and fitting distribution; and steel import/export distribution.

- **Service Center Distribution**—purchases metal in large volumes from producers principally in North America, adds value by providing a wide range of reliable services, and then distributes the product to a broad base of users. Within Canada, this segment operates under the names Russel Metals, Métaux Russel, Drummond McCall and B&T and in the U.S. under the names Russel Metals – Bahcall Group, Baldwin International and Copco Steel.
- **Energy Sector Distribution**—the four business units distribute pipe, tubular products and valves, chiefly to the energy sector, from five Canadian and four U.S. locations. The Canadian locations operate under the names Comco Pipe and Supply Company and Fedmet Tubulars, while the U.S. locations operate under the names Total Distributors and Pioneer Pipe.
- **Steel Import/Export Distribution**—exports North American Steel products to international end users, and imports foreign steel products into Canada and the United States for both steel mills and metals distribution companies. The import/export business operates from Canada as Wirth and from the U.S. as the Sunbelt Group.

Russel Metals has over 1,800 employees in 57 locations throughout North America.

Our Vision

To be an aggressive, proactive, top performing metals distribution and import/export business, seeking to create value through diligent emphasis on bottom line performance and effective asset management at all levels of the organization.

1999 achievements

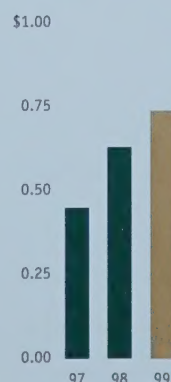


- Record E.P.S. level of \$0.74
- 3rd straight year of increased earnings per share
- Refinanced long-term debt—\$125 million USD new 10 year Senior Notes
- Redeemed \$75 million in convertible debentures eliminating potential share dilution
- Realized strong cash flow from operating activities of \$141 million in 1999
- Cut balance sheet leverage in half over the last 3 years
- Successfully bought back 3.5 million shares at significant discount to net book value
- Reduced interest expense by \$10.6 million, and strengthened interest coverage ratios from 2.7x to 3.3x
- Increased book value per share 22% to \$5.10 as at January 1, 2000

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Earnings per share



For the years ended December 31

1999

1998

1997

1996

1995

INCOME STATEMENT INFORMATION

(\$000 except for share amounts)

Revenues	\$ 1,415,392	\$ 1,784,787	\$ 1,667,431	\$ 1,296,719	\$ 1,318,375
EBIT (Note 1)	59,220	75,595	60,162	24,466	42,548
EBIT to sales %	4.2%	4.2%	3.6%	1.9%	3.2%
EBITDA (Note 2)	72,751	87,288	70,694	38,229	55,442
EBITDA to sales %	5.1%	4.9%	4.2%	2.9%	4.2%
Interest expense (Note 3)	19,343	27,129	24,001	22,029	29,704
Earnings (loss) before taxes (continuing operations)	39,877	48,466	36,161	(14,294)	12,844
Net earnings (loss)	41,856	40,133	30,586	(118,468)	9,730
Basis earnings (loss) per common share	\$ 0.74	\$ 0.63	\$ 0.45	\$ (2.42)	\$ 0.10

BALANCE SHEET INFORMATION (Note 6)

(\$000)

Metals

Accounts receivable	\$ 210,687	\$ 222,105	\$ 259,582	\$ 181,315	\$ 165,111
Inventories	254,527	331,790	301,769	215,823	238,450
Prepaid expenses and other assets	1,821	2,032	2,168	1,561	1,486
Accounts payable and accrued liabilities	(168,546)	(173,422)	(186,629)	(159,965)	(148,311)
Working capital – Metals	298,489	382,505	376,890	238,734	256,736
Fixed assets	73,402	66,265	65,829	65,140	83,656
Goodwill	5,066	7,201	8,105	5,854	6,133
Net assets employed in metals operations	376,957	455,971	450,824	309,728	346,525
Other operating assets	25,304	30,747	26,710	26,947	27,516
Non-core and discontinued assets and liabilities	41,910	40,848	57,099	131,979	169,494
Net income tax assets and liabilities	21,737	4,635	5,377	10,640	69,029
Deferred financing charges	8,249	4,595	4,294	6,262	8,800
Pensions and benefits	(9,411)	3,963	4,850	4,900	4,100
Other corporate assets and liabilities	(2,232)	(4,797)	(11,248)	1,893	9,802
Total net assets employed	\$ 462,514	\$ 535,962	\$ 537,906	\$ 492,349	\$ 635,266
Bank indebtedness	\$ (19,968)	\$ 58,268	\$ 80,670	\$ 44,818	\$ 63,987
Long-term debt	210,413	168,097	181,715	200,488	205,071
Equity portion of 9% Convertible Debentures	—	65,817	64,018	58,833	54,152
Total interest bearing debt	190,445	292,182	326,403	304,139	323,210
Preferred shares	30,000	30,000	30,000	30,000	30,000
Market capitalization (Note 4)	182,360	178,626	224,443	165,776	188,729
Firm value	\$ 402,805	\$ 500,808	\$ 580,846	\$ 499,915	\$ 541,939

OTHER INFORMATION

Ending outstanding common shares	47,489,547	51,035,847	51,009,864	51,007,864	51,007,864
Average outstanding common shares	49,573,917	51,029,103	51,008,279	51,007,864	51,007,864
Common shareholders' equity (\$000) (Note 6)	242,069	213,780	181,503	158,210	282,056
Book value per share \$ (Note 6)	5.10	4.19	3.56	3.10	5.53
Firm value as a multiple of sales	0.28	0.28	0.35	0.39	0.41
Firm value as a multiple of EBIT	6.80	6.62	9.65	20.43	12.74
Firm value as a multiple of EBITDA	5.54	5.74	8.22	13.08	9.77
Market capitalization/book value (Note 6)	0.75	0.84	1.24	1.05	0.67
Adjusted interest (\$000) (Note 5)	22,228	32,792	29,185	26,708	33,928
Interest bearing debt/EBITDA	2.62	3.35	4.62	7.96	5.83
EBITDA/Interest (Note 5)	3.3	2.7	2.4	1.4	1.6
Interest bearing debt as a % of Metals working capital	64%	76%	87%	127%	126%
Capital expenditures (\$000)	17,249	11,002	8,823	13,687	17,911
Market price of common share at December 31 \$	3.84	3.50	4.40	3.25	3.70
Price range of stock \$					
High	4.40	6.25	5.70	4.45	6.75
Low	2.50	2.51	2.75	2.85	3.55

NOTES:

1. Earnings from continuing operations before deduction of interest, taxes and special charges.
2. Earnings from continuing operations before deduction of interest, taxes, special charges, depreciation and amortization.
3. Interest expense charged to continuing operations. See Note 7 to the consolidated financial statements.
4. Outstanding common shares times market price of a common share at December 31.
5. Interest includes pretax interest on 9% Convertible Debentures recorded as distribution from retained earnings.
6. Includes income tax adjustments. See Subsequent Events Note 18 to the consolidated financial statements.



questions + answers

→ A conversation with Edward M. Siegel, Jr.,
President and Chief Executive Officer



Q: In the 1998 Annual Report you forecasted that 1999 would be a challenging year. Did your predictions prove to be correct?

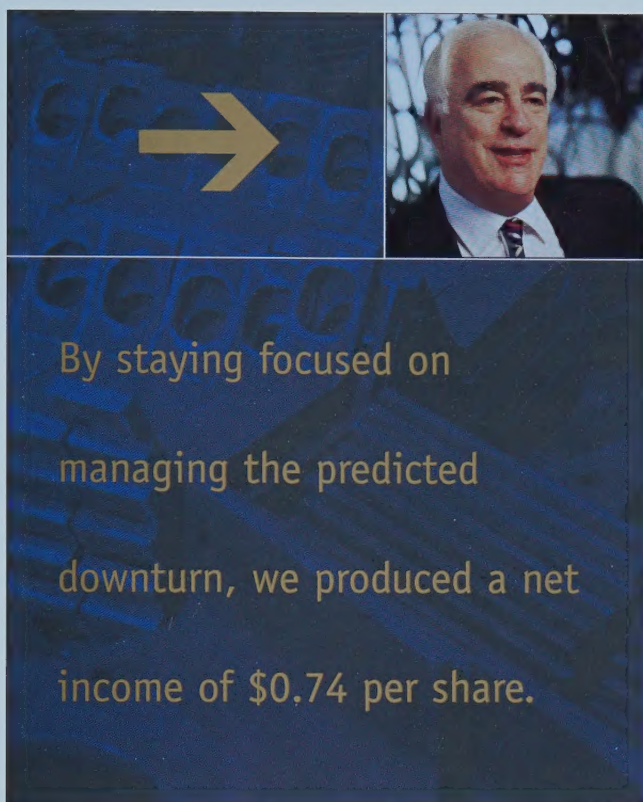
A: Yes. This past year was challenging, exciting and at the end, rewarding. In the Report to Shareholders in the 1998 Annual Report, I said the following: “1999 will be a challenging year for the Company as demand for metal products in North America has decreased in the fourth quarter of 1998 and prices for our products have dropped accordingly. The Company will endeavor to further reduce its net working capital to ensure it returns the greatest earnings possible to the shareholder within the realities of the steel market. We believe that the second half of 1999 will show some strengthening and the Company’s performance based on a return on net assets measurement should be in the top quartile of its peers.” As forecasted, we experienced a downturn in revenue for all three operating segments during 1999, and based on revenue, it was a trough year in the cycle for Russel. However, we anticipated that 1999 was going to be a demanding period and we prepared accordingly. Consequently, we generated much stronger results in 1999 than we otherwise would have in previous years, given a comparable dramatic decline in revenue.

Q: With revenues down, how was Russel Metals able to remain so profitable in 1999?

A: By staying focused on managing the predicted downturn, we produced a net income of \$41.9 million or \$0.74 per share for Russel Metals Inc. for 1999. As expected, the net income strengthened in the last two quarters of 1999, although the full strength of our fourth quarter results did come as a pleasant surprise. Revenue declined 21% to \$1.4 billion in 1999 compared to \$1.8 billion in 1998. Despite this drop in revenue, which we anticipated and prepared for as early as the third quarter of 1998, the Company remained highly profitable in 1999. On the heels of record earnings in 1998, 1999 generated a new high. It also marks this management team’s third consecutive year of increased earnings per share. There is no question, this was a major accomplishment.

Q: How has the management team succeeded in delivering three years of improving profitability?

A: It has really been an ongoing process, one that began when new management was put in place in 1997. To clarify to shareholders and clients what businesses Russel Metals was in, we reorganized the business financial disclosure into three sectors: service center distribution, energy sector distribution and steel import/export.

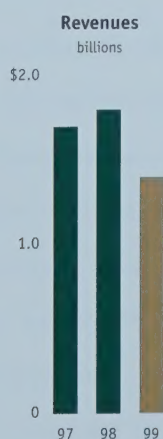


Q: How did the service center operation perform in 1999?

A: Revenues decreased by 13% to \$760.6 million compared to 1998 mainly related to a decline in selling prices. The service center operating profits decreased by 14% to \$39.5 million from \$45.9 million in 1998.

At the start of 1999, despite an oversupply of certain steel products such as plate and wide flange beams, we continued to achieve above average inventory turns due to our careful monitoring of inventory levels. However, we experienced large volume declines in our Western Canada service centers. Why? First, a recession in British Columbia resulted in a decline in the activities of the resource sector. Secondly, the downturn in the energy sector in Alberta caused a slowdown in project work. And finally, a downturn in Saskatchewan's and Manitoba's agriculture sectors caused by declines in demand led to a severe reduction in the manufacture of farm equipment, Russel's largest Western customer base. It was a different story in the East, where our shipments in the Quebec and Atlantic regions experienced an increase over the same period last year. We continue to consolidate our general line operations in Ontario and, although they were not as profitable as in 1998, they continue to perform well in comparison to prior years.

In our first year, we simplified our management structure, centralized our Canadian steel service center purchasing function and last, but certainly not least, we streamlined operations. The following year we focused on growing both the bottom and top line. And 1999, I am pleased to report, was a successful year of consolidation.



Our U.S. service centers also suffered volume declines as a consequence of three occurrences: an increase in domestic plate capacity which caused an oversupply of product and ensuing weak pricing; a surge of steel imports at the end of 1998 which overhung the market for most of 1999; and a reduction in consumption by farm equipment manufacturers and other consumers of plate products. At the end of 1999, we merged our Copco steel plate operation in Detroit with our general line Bahcall operation in Wisconsin, to take additional infrastructure costs out of the business.

Overall, trends became more positive in the fourth quarter of 1999. I believe we can expect volume and pricing to be on the upswing once again as we move forward in 2000.

Q: You also managed to remain profitable in the energy operation?

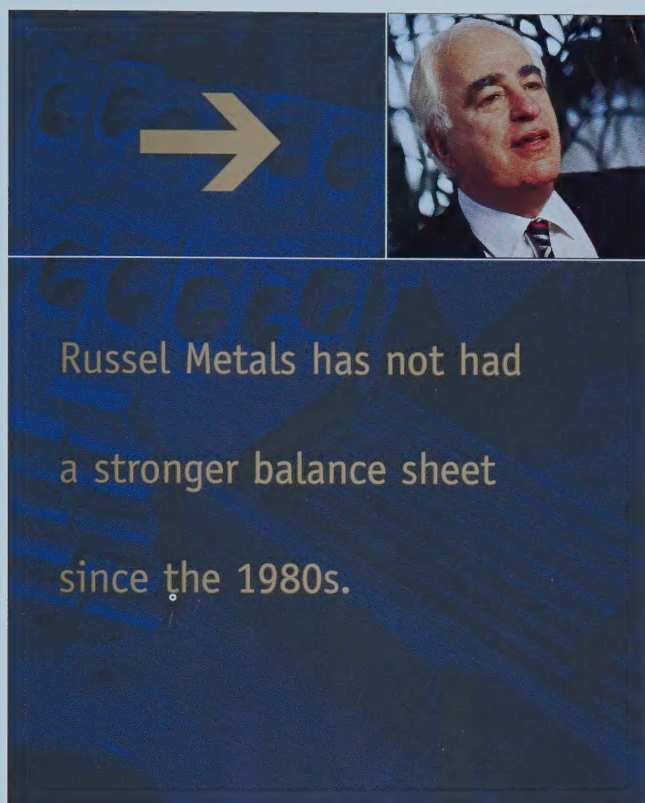
A: That's correct. And again, in a very difficult year. Due to the low price of oil, the energy sector in Western Canada and the Western United States was depressed in the first quarter of 1999, which had a negative impact on our energy sector distribution business. The situation was exacerbated by an early spring thaw, which further negatively impacted drilling activity. Even with improved oil prices during the summer, the lack of drilling activity during this seasonally slow period, combined with excess inventories in the U.S. dampened demand and prevented improvement in the second and third quarter. However, the energy sector began to recover in the fourth quarter.

Operating profits for the energy segment declined \$9.0 million or 55% compared to 1998. As a consequence of a decline in selling prices in both the oil country tubular operations and the heat exchanger tubing operation, energy sector distribution revenues decreased by \$78.9 million or 22% compared to 1998. As part of an ongoing streamlining of our operations, we dramatically downsized Total Distributors, one of our distributors to the oil and gas refinery industry headquartered in Tulsa, Oklahoma.

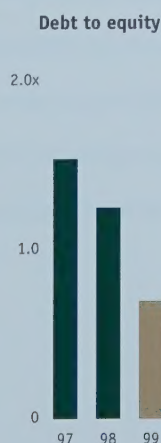
Q: What were the challenges facing the import/export operation?

A: Due to the plethora of trade actions, there was a surge of imported steel coming into North America in the second half of 1998, flooding the market before trade restrictions were implemented. We correctly anticipated that prices would drop dramatically, customers' expectations would increase the downward pressure on pricing, and at the end of the day, margins would be squeezed to unacceptable levels.

Faced with an oversupply of metal in North America and uncertainty of pricing—which continued throughout the first half of 1999—we curtailed our offshore steel purchases in the third quarter of 1998 to ensure that we would not be burdened with overpriced inventories. At the same time, we consolidated two of our import operations into Sunbelt, headquartered in Houston, as these companies had not been producing an acceptable



rate of return. As excess inventories have been absorbed into the market and as imports have declined, and through the rationalization of combining our trade activities into the two operations, Sunbelt and Wirth, we have experienced an upturn in operating income in the second half of 1999.



Operating profits decreased by \$4.8 million or 21% compared to 1998. Revenues decreased by \$186.8 million or 34% primarily as a result of decreased sales volume in both the Canadian and U.S. operations.

Q: You continued to strengthen the Company's balance sheet?

A: Right from the start, one of our primary goals was to strengthen the balance sheet. The Company's earnings performance in the face of a 21% revenue reduction validates our view that Russel Metals can be profitable at all points in the cycle by maintaining tight controls on expenses and working capital. Obviously, to be able to accomplish this, one must understand the dynamics of the marketplace and take action in a proactive fashion, which Russel managers did in the second half of 1998 and throughout 1999.

I am especially pleased with the continued enhancement of the balance sheet. The equity significantly exceeds interest bearing debt for the first time since the early 1990s. We reduced our total interest expense by \$10.6 million due to the reduction in interest bearing debt by \$101.7 million and at the year end we had \$20.0 million cash on hand. We also took 3.5 million shares—\$12.5 million worth—out of the Company's share structure, reducing our number of shares outstanding to 47.5 million. Russel Metals has not had a stronger balance sheet since the 1980s.

Q: What about non-core assets?

A: We continued to move forward with the liquidation of non-core assets in 1999. The proposed sale of Cashway announced in February 2000 for \$29.4 million frees up capital which was previously tied up on the balance sheet and was not contributing to Russel's earnings.

Q: Metals Distribution is a cyclical business.

E-commerce is transforming the business landscape.

Can the Russel culture handle the next century?

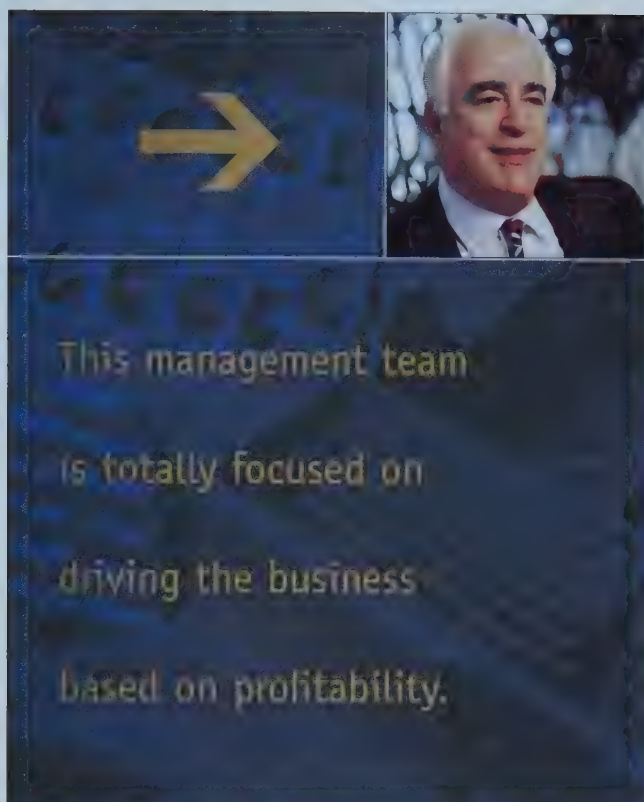
A: Over the last three years, we have established a tight-knit team of managers. They have proven to be adept at managing change, and they have the experience and insight to manage throughout the cycle. We have proven that our management team can be successful in a highly cyclical business. Our ability to meet the challenges of E-commerce should not be any different.

We have worked very hard to provide a business framework to ensure that managers are aware of their goals and measurables. Part of this strategic process includes providing managers with the responsibility and authority to optimize their goals, and ensuring they are accountable for their performance. This management team is totally focused on driving the business based on profitability.

It is our belief that we must be profitable and we must strive to improve the return on shareholders' equity. If these events occur, we compensate our people accordingly. By basing compensation on measurables, we have given our people a genuine sense of ownership.

Q: The Company addressed the Y2K situation and implemented a new management information system for the Canadian service centers. Are you satisfied with the results?

A: I am pleased to report that all went as planned. During the second quarter of 1999, we converted 34 Canadian service center locations to an industry specific operating and financial system that was Year 2000 compliant. Two additional units were added in the fourth quarter. All other units converted or upgraded their business operating systems to ensure they were Year 2000 compliant. Contingency plans were prepared at each business unit that included shut down of specific computer and processing equipment to minimize the impact of potential disruptions at critical third party suppliers. All remediation activity was completed and critical equipment replaced by December 1999. Thanks to the time, effort and investment we made to address the Year 2000 Issue, our operations continued uninterrupted. All of our staff are to be congratulated on their efforts.



Q: Why has your stock not reflected all the positive trends happening at Russel?

A: The reality is, I believe we are still living with residual doubts rooted in the Company's checkered past. Although we have gone to great lengths to provide accurate forecasts, and have done so for the last three years, we seem to receive limited support from the investment community except for the key analysts who do follow our stock. Recently, the equity market has not in general fully appreciated small capitalization, value

investments such as Russel. Take a close look at us. Even though our stock appreciated by 10% from December 31, 1998 to December 31, 1999, you will find that we still trade at the lowest P/E in the industry in North America. This occurs despite one of the best balance sheets and one of the most diverse portfolios of any company in metals distribution.

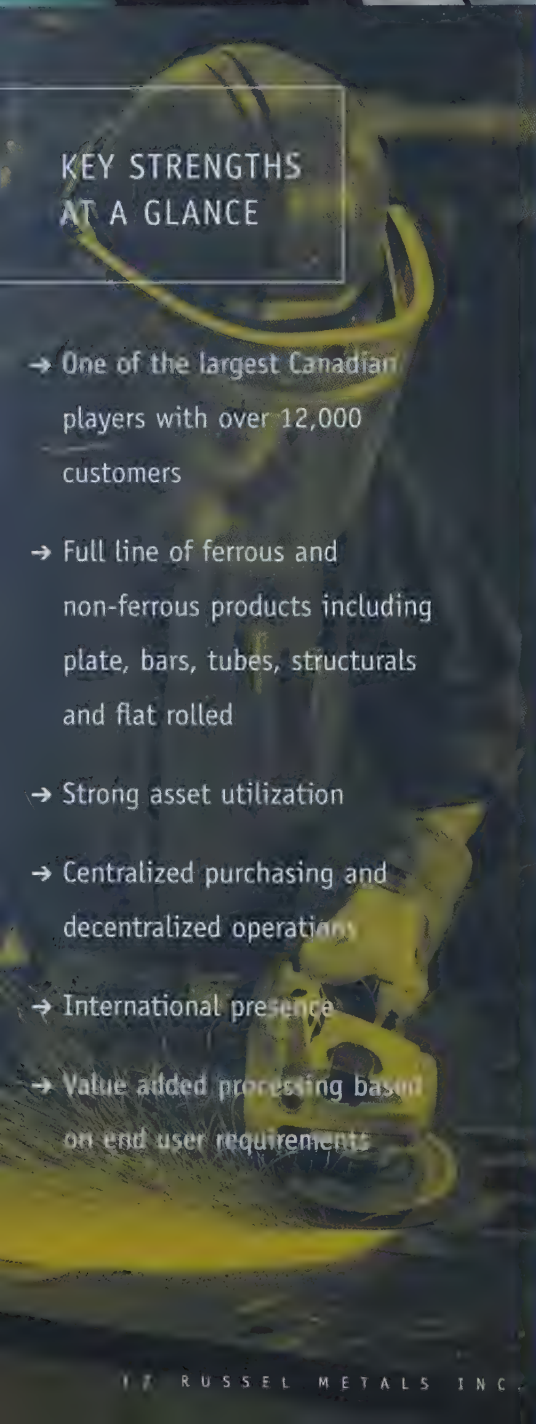
It is also possible that people may not understand our import/export business. What they do not realize is that we have always been profitable in this sector, and have what I consider to be the leading management team in North America. Based on the only public numbers I have seen on this sector, we are certainly the market leader based on the earnings before interest and taxes (EBIT) to sales ratio. The investment community does not recognize our import/export business as the Cadillac performer that it is.

The same holds true for our energy distribution sector. Investors feel that this area is the most volatile sector in the metals distribution business. By remaining profitable through 1999 in the energy sector, our managers have delivered a strong performance in the face of one of the worst oil price declines in years.



service center

DISTRIBUTION



KEY STRENGTHS AT A GLANCE

- One of the largest Canadian players with over 12,000 customers
- Full line of ferrous and non-ferrous products including plate, bars, tubes, structurals and flat rolled
- Strong asset utilization
- Centralized purchasing and decentralized operations
- International presence
- Value added processing based on end user requirements

A North American network of Service Centers



Russel Metals provides processing and distribution services to a broad base of approximately 12,000 end users in a wide variety of industries, including machinery and equipment manufacturing, construction, shipbuilding and natural resources, such as mining and petroleum, through a network of 41 Canadian and 7 U.S. locations.



U.S. Operations

Russel Metals' U.S. service centers sell primarily general line carbon steel products. General line steel products consist of plate, structurals, bars, sheet, pipe, tubing and hollow structural steel tubing.

Russel Metals' U.S. service center operations are conducted under the Russel Metals – Bahcall Group, Baldwin International and Copco Steel names. The Bahcall Group focuses primarily on the distribution of general line carbon products through facilities in Wisconsin and Minnesota. Baldwin International distributes specialty alloy products through facilities in Ohio and Michigan. Copco Steel distributes steel plate from its facility in Michigan.

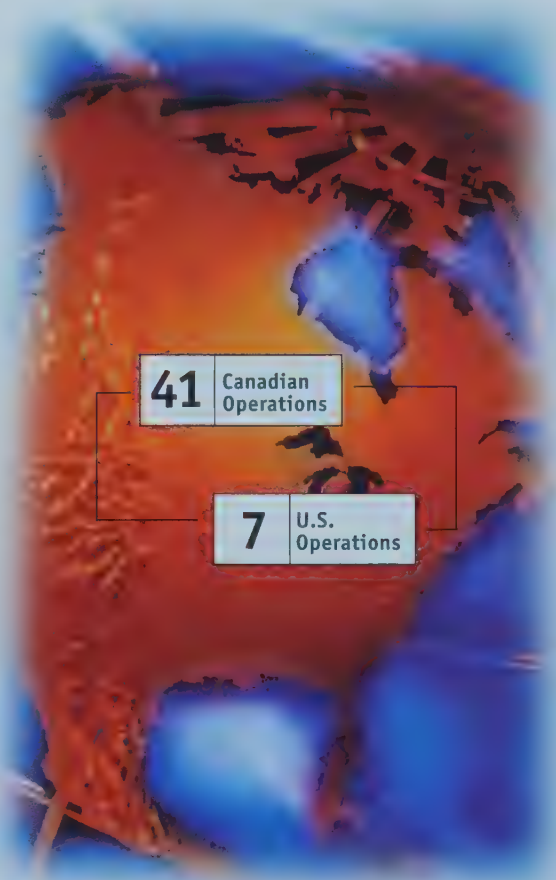
The Company's network of service centers carries a full line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. Russel Metals purchases these products primarily from steel producers in North America and packages them for end users who typically require steel products in quantities that are smaller than the economic minimum order quantities available from steel producers.

Russel Metals service center operations provide specialized processing services to satisfy specifications established by end users. By providing these services, as well as by offering inventory management and just-in-time delivery, Russel Metals enables end users to reduce their overall production costs and decrease capital required for raw materials and metals processing equipment.

Canadian Operations

Russel Metals operates one of the two largest steel service center operations in Canada based on revenue and tons sold. Russel Metals' Canadian service centers sell plate, flat rolled carbon and general line steel products, as well as some stainless steel, aluminum and other non-ferrous specialty metal products.

Within Canada, the steel service centers operate under the names Russel Metals, Métaux Russel and Drummond McCall. Heavy gauge flat rolled operations are conducted by B&T Steel and McCabe, both located in Hamilton, Ontario.



energy sector

DISTRIBUTION

KEY STRENGTHS AT A GLANCE

- Clear product focus—pipe, tube and valve distribution for the energy sector
- Strong entrepreneurial culture
- Diversity within the energy sector
- Operations throughout North America

Distributing products primarily to the **energy sector**



The Company's energy sector distribution operations carry a more specialized and limited product line than the steel service centers. These operations distribute pipe and tubular products and valves, primarily to the energy sector, from 5 Canadian and 4 U.S. locations. These products are originally purchased from either the pipe processing arms of North American steel mills or from independent manufacturers of pipe and its accessories.



Each business in this segment sells a distinct line of products. These businesses include:

Fedmet Tubulars

- a distributor of oil country tubular goods (OCTG) (which includes casing and tubing) and line pipe and related products. Fedmet Tubulars' sales office is located in Calgary, Alberta.

Comco Pipe and Supply Company

- a distributor of pipe, valve and fitting products. Comco Pipe and Supply specializes in the supply and distribution of pipe and fluid handling products to the energy, construction, manufacturing, pulp and paper and mining industries. These products are distributed through facilities in Edmonton, Alberta; Burnaby, British Columbia; Stonewall, Manitoba; and Guelph and Sarnia, Ontario.

Total Distributors

- a distributor and processor of specialty steel tubing for use in the petrochemical and heat exchanger industries. Total Distributors stocks domestic and imported tubing in carbon, alloy and stainless steel. End users of these products include oil and gas refineries and petrochemical, dairy and fertilizer companies. Facilities are located in Tulsa, Oklahoma and Houston, Texas.

Pioneer Pipe

- a distributor and processor of steel pipe products to the construction, oil and gas and ski industries in the Western United States. Pioneer Pipe has facilities in Aurora, Colorado and London, Utah.

steel import/export

KEY STRENGTHS AT A GLANCE

- Synergy with service center business
- Products include flat rolled, plate, structurals, bars and other steel products
- Pure working capital business
- No annual operating loss, ever
- Stability of margins
- Entrepreneurial culture

A major **North American** **import/export** operation



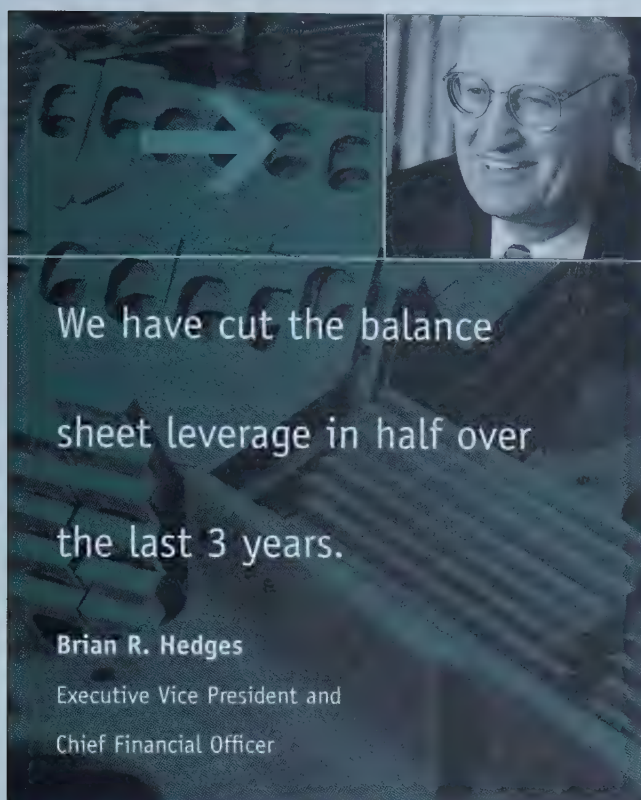
Russel Metals' import/export, through Wirth located in Canada and the Sunbelt Group located in the U.S., exports North American steel products to international end users, and imports foreign steel products into Canada and the United States. This operation also provides the Company's other business segments with valuable insight regarding international pricing trends and their potential impact in North America.

Revenues from these operations may vary substantially from year to year, depending primarily on general economic conditions both in North America and in the export markets served by these operations.

Specializing in imports into North America

The Company specializes in the import into North America of carbon steel, plate, beams, channel, flat rolled products, rail and pipe products. Sales commitments for a significant portion of these products are generally obtained prior to their purchase or while the product is in transit. Products for which sales commitments have not been obtained are held in public warehouses for resale to North American steel service centers.

For The Year Ended December 31, 1999



The following management's discussion and analysis of financial condition and results of operations of Russel Metals Inc. and its subsidiaries (Russel Metals or the Company) provides information to assist the reader and should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 1999 including the notes thereto. Statements contained in this document that relate to Russel Metals' beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. Russel Metals cautions readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting Russel Metals' operations, markets, products, services and prices that could cause the Company's actual results, performance or achievements to be materially different from those forecasted or anticipated by Russel Metals in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

Overview

Russel Metals is one of the largest steel distribution companies in North America based on revenues and tons sold. The Company conducts business primarily in three metals business segments: general line service centers; energy sector pipe, tube and valve distribution; and steel import/export.

Russel Metals operates one of the two largest steel service center operations in Canada based on revenues and tons sold. The Company provides processing and distribution services to a broad base of approximately 12,000 end users through a network of 41 Canadian and seven U.S. locations. The Company's network of service centers carries a full line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. Russel Metals purchases these products primarily from steel producers in North America and packages them in accordance with end user specifications. The Company services all major geographic regions of Canada and selected regions in the United States. Within Canada, the service centers operate under Russel Metals, Métaux Russel and Drummond McCall. Heavy gauge flat rolled operations are conducted by B&T Steel and McCabe Steel, both located in Hamilton, Ontario. Russel Metals' U.S. service center operations are conducted under Russel Metals – Bahcall Group, Baldwin International and Copco Steel. The Bahcall Group focuses primarily on the distribution of general line carbon products through facilities in Wisconsin and Minnesota. Baldwin International distributes specialty alloy products through facilities in Ohio and Michigan. Copco Steel distributes steel plate from its facility in Michigan.

The Company's energy sector distribution operations carry a narrow specialized product line. These operations distribute pipe, tubular products and valves, primarily to the energy sector in

Western Canada and the Western United States, from five Canadian and four U.S. locations. Russel Metals purchases these products either from the pipe processing arms of North American steel mills or from independent manufacturers of pipe and its accessories.

Russel Metals' steel import/export business exports steel products to international end users and imports foreign steel products into Canada and the United States. It also provides the Company's other business segments with valuable insight regarding international pricing trends and their potential impact in North America.

All three of the metals business segments in which Russel Metals operates are significantly affected by economic cycles and accordingly Russel Metals' revenues and profit margins fluctuate with the level of general business activity in the markets it serves. Russel Metals' Canadian steel service centers, which represent a large portion of its operations, are particularly affected by general economic conditions in Ontario and Quebec, and by pulp and paper and resource sector activities in Western Canada, where demand for steel by the construction and capital goods sectors fluctuates considerably during the economic cycle.

Revenues are also affected by steel prices. Steel prices are influenced by overall demand and by product availability. Product availability is affected significantly by the supply side management practised by steel producers in North America and international supply and demand which impacts steel exports and imports. The market for certain of Russel Metals' products is such that selling prices and therefore profit margins fluctuate with steel prices. Prices for steel imported into North America by Russel Metals' steel import operations are influenced by trade sanctions imposed by the countries into which it imports steel and domestic supply side policies. In order to position itself to react to pricing and supply changes in the market and to minimize holding losses and gains, Russel Metals monitors

its inventory levels and endeavours to achieve above average inventory turns. Management believed that there was an over-supply of certain products in North America as a result of: significant steel production capacity currently being added by steel producers in the United States, continued imports, stagnant international demand, and a continuing economic slowdown in Western Canada in the mining, forest product and agricultural sectors. Due to the uncertainty of these factors on pricing, the Company reduced its importing activities throughout the fourth quarter of 1998 to the third quarter of 1999. The pricing environment for steel improved in the fourth quarter of 1999.

Since 1991, Russel Metals has undertaken a number of initiatives to restructure its business, allowing it to focus on its metals operations. The only transport operation still held by Russel Metals is Thunder Bay Terminals, a coal handling facility in Thunder Bay, Ontario. Since this remaining transport operation has not been sold, it has been included in continuing operations for 1999.

Results of Operations

The following table provides a summary of revenues, gross margins (revenue minus cost of sales) as a percentage of revenues and operating profits (revenue minus cost of sales and operating expenses excluding corporate expenses, other income and interest expense) for Russel Metals' operations.

				1999	1998
				Change as a	Change as a
(in thousands of dollars, except percentages)	1999	1998	1997	% of 1998	% of 1997
Segment Revenues					
Service center distribution	\$ 760,568	\$ 875,229	\$ 823,129	(13.1%)	6.3%
Energy sector distribution	274,519	353,424	411,593	(22.3%)	(14.1%)
Steel import/export	369,285	556,134	432,709	(33.6%)	28.5%
Other	11,020	—	—	—	—
	\$ 1,415,392	\$ 1,784,787	\$ 1,667,431	(20.7%)	7.0%
Segment Operating Profits					
Service center distribution	\$ 39,501	\$ 45,929	\$ 25,875	(14.0%)	77.5%
Energy sector distribution	7,362	16,401	22,350	(55.1%)	(26.6%)
Steel import/export	17,811	22,601	19,643	(21.2%)	15.1%
Other income	3,513	—	1,709	—	—
Corporate expenses	(7,880)	(9,336)	(9,415)	15.6%	0.8%
Total operating profits	60,307	75,595	60,162	(20.2%)	25.7%
Debt redemption costs	(1,087)	—	—	—	—
Earnings before interest and taxes	59,220	75,595	60,162	(21.7%)	25.7%
Total adjusted interest (see Interest)	22,228	32,792	29,185	32.2%	(12.4%)
Earnings before income taxes	\$ 36,992	\$ 42,803	\$ 30,977	(13.6%)	38.2%
Segment Gross Margins as a % of Revenues					
Service center distribution	25.2%	23.1%	22.6%		
Energy sector distribution	12.9%	14.3%	14.0%		
Steel import/export	10.1%	7.4%	8.3%		
Total	19.2%	16.4%	16.8%		
Segment Operating Profits as a % of Revenues					
Service center distribution	5.2%	5.2%	3.1%		
Energy sector distribution	2.7%	4.6%	5.4%		
Steel import/export	4.8%	4.1%	4.5%		
Earnings before interest and taxes	4.2%	4.2%	3.6%		

Year Ended December 31, 1999

Compared to Year Ended December 31, 1998

Service Center Distribution

Service center operating profits decreased by \$6.4 million, or 14%, in 1999 compared to 1998. Service center revenues decreased by \$114.7 million, or 13%, in 1999 compared to 1998, mainly related to a decline in selling prices. Selling price per ton for 1999 was down in all Canadian and U.S. service centers. Volume declines in Western Canadian service centers mainly related to the agricultural sector were offset by increased volume in Quebec and Atlantic regions. The remaining regions had sales volumes in 1999 comparable to 1998. The gross margin percent increased to 25.2% from 23.1% mainly related to a lower average purchase price of materials and to product mix. Operating expense dollars declined 3% in 1999 compared to 1998, however increased as a percentage of revenues. Operating profits as a percentage of revenues for 1999 remain unchanged compared to 1998.

Energy Sector Distribution

Energy sector distribution operating profits declined \$9.0 million, or 55%, in 1999 compared to 1998. Energy sector distribution revenues decreased by \$78.9 million, or 22%, in 1999 compared to 1998. An early spring thaw negatively impacted drilling activity in an already depressed energy sector in Western Canada and Western United States during the first quarter. Although oil prices improved in the second quarter, demand did not improve until fourth quarter due to lack of drilling activity in Canada during the summer period and excess inventories in the U.S. The improved oil prices resulted in a strong fourth quarter for Western Canadian operations. With this pickup the volumes in Canada for the 1999 year exceeded those for the 1998 year, however, selling price per ton for 1999 remained below 1998 levels. The excess inventories in the U.S. oil country operations are currently working their way through the systems,

thus the U.S. operations experienced both lower volumes and lower selling prices in 1999 compared to 1998.

Gross margins dropped from 14% in 1998 to 13% in 1999. Although operating expenses were reduced by 17% in 1999 compared to 1998, the lower revenues and lower gross margins resulted in the decline in operating profits. The increased oil price generated additional drilling activity during the fourth quarter of 1999 and this activity is anticipated to continue during the first quarter of 2000 until spring thaw occurs in Canada.

Steel Import/Export

The steel import/export operating profits decreased by \$4.8 million, or 21%, in 1999 compared to 1998. Revenues decreased by \$186.8 million, or 34%, primarily as a result of decreased sales volume in both the Canadian and U.S. operations. The lower sales volume is a result of management's determination in the third quarter of 1998 to effect a reduction of offshore steel purchases due to oversupply in North America and uncertainty of pricing, which continued throughout the first half of 1999, and the restructuring of the Houston operations into one business. The results have been negatively impacted by excess inventories of plate; however they have been positively impacted in the second half of 1999 by a temporary shortage of wide flange beams. The increase in gross margin percent relates to a change in product mix and the lower margins experienced in the restructured operations in 1998. The shortage of wide flange beams is anticipated to continue during the first half of 2000.

Consolidated Results

Earnings before interest and taxes decreased by \$16.4 million to \$59.2 million, a decrease of 22%, in 1999 compared to 1998, primarily due to a combination of lower volumes and selling prices in the three business segments. The most significant declines are in energy and steel import/export. Consolidated revenues decreased by 21% to \$1,415 million in 1999 compared to 1998 due to declines in all metals segments.

During the second quarter of 1999, the Company completed the issue of new Senior Notes (see Liquidity) and the redemption of the 10.25% Senior Notes, due June 2000, and the 9% Convertible Debentures, due October 31, 1999. The redemption of the debt prior to maturity resulted in a one time charge of \$1.1 million related to the original issue costs, foreign exchange losses and duplicate interest expense.

Consolidated interest expense, including the pre-tax interest on the 9% Convertible Debentures recorded as a dividend distribution, decreased \$10.6 million to \$22.2 million in 1999 compared to 1998. This decrease was due to a significant reduction in short-term bank borrowings caused by an \$85.3 million reduction in working capital since December 31, 1998. The lower inventory and accounts receivable balances are at levels appropriate to the current sales volumes. Also, interest on long-term debt was lower due to the \$41 million in debt redemptions made during 1998 and the decrease in long-term debt of \$14.1 million in 1999.

Basic earnings per share for 1999 was \$0.74 per share compared to \$0.63 per share for 1998. The significant reduction in interest costs has offset the decline in earnings before interest and taxes. Also, income taxes are lower due to a larger portion of the earnings before taxes in 1999 being generated by Canadian operations. Current timing differences related to Canadian operations of \$4.5 million were recorded as deferred income taxes.

The weighted average number of common shares outstanding for 1999 was 49,573,917 compared to 51,029,103 for 1998. The reduction relates to common shares purchased under the normal course issuer bid. At year end, 47,489,547 common shares were outstanding.

Year Ended December 31, 1998

Compared to Year Ended December 31, 1997

Service Center Distribution

Service center operating profits increased by \$20.1 million, or 78%, in 1998 compared to 1997 due to higher revenues and lower operating expenses. Revenues increased by \$52.1 million, or 6%, due primarily to increased sales volumes in our Eastern Canada and U.S. service centers. The operating profits ratio showed significant improvement at 5.2% compared to 3.1% due primarily to improvements in the Ontario and Quebec operations achieved through improved gross margins and lower operating expenses from cost reductions. Although the improvements in Ontario and Quebec had the most significant impact on the operating profits ratio, it was also favourably impacted by the fact that all regions other than British Columbia and Alberta showed an increase in 1998 compared to 1997. The decline in operating profits in British Columbia and Alberta was related to the economic decline in the pulp and paper and oil industries which reduced sales in these sectors.

Energy Sector Distribution

Energy sector distribution operating profits declined \$5.9 million, or 27%, due to lower revenues. Revenues decreased by \$58.2 million, or 14%, due to a decline in demand for oil country tubular products and services in Western Canada, partially offset by increased revenues in the heat exchanger tubing operation in Oklahoma and Texas. The operating profits of Fedmet Tubulars, which is more sensitive to the resource sector, declined 72.3% in 1998 compared to 1997, whereas the other three energy sector units' operating profit increased 14.8% for 1998 compared to 1997.

Steel Import/Export

The steel import/export operating profits increased by \$3.0 million, or 15%, in 1998 compared to 1997. Revenues increased by \$123.4 million, or 29%, as a result of increased volume in both Canadian and U.S. operations. The operating profits ratio declined slightly to 4.1% compared to 4.5% in 1997 as a result of inventory writedowns recorded in the fourth quarter to reflect market price declines. These writedowns impacted the gross margins and operating profits for 1998.

Consolidated Results

Earnings before interest and taxes increased by \$15.4 million to \$75.6 million, an increase of 26%, in 1998 compared to 1997 due primarily to higher operating profits in service centers. Consolidated revenues increased by 7% to \$1,784.8 million in 1998 compared to 1997 due to increased revenues in the service center and steel import/export operations offset by decreased revenue in the energy sector distribution operations.

Consolidated interest expense, including the pre-tax interest on the 9% Convertible Debentures recorded as a dividend distribution,

increased to \$32.8 million in 1998 compared to \$29.2 million in 1997. This increase is primarily due to higher utilization of short-term bank borrowings to meet increased working capital requirements to support higher sales volumes. In 1997, a higher amount of interest was charged to discontinued operations related to the Tri-White assets and earnings. Long-term debt interest expense also increased approximately \$0.9 million due to higher exchange rates on the US\$87.0 million of U.S. dollar denominated debt.

Basic earnings per share from continuing operations for 1998 were up 43% at \$0.63 per share compared to \$0.44 per share for 1997.

Interest Expense

Total interest bearing debt peaked mid year in 1998, and has continuously improved over the last six quarters. At December 31, 1999, the Company had cash on hand of \$20.0 million. This represents a decrease in bank borrowing of \$78.2 million in 1999. In addition, the Company reduced long-term debt by \$14.1 million in 1999 to \$210.4 million as of December 31, 1999.

Canadian generally accepted accounting principles (Canadian GAAP) required Russel Metals to allocate a portion of the 9% Convertible Debenture interest payment, net of tax, as a dividend distribution. The 9% Convertible Debentures were redeemed in June 1999. (See Liquidity.) In addition, a portion of interest expense is allocated to discontinued operations.

The following table shows the components of interest expense, including the portion allocated to discontinued operations, and the amount of the 9% Convertible Debenture interest allocated as a dividend distribution.

Interest

(in thousands of dollars)	1999	1998	1997
Long-term debt interest – Fixed rate	\$ 12,436	\$ 4,609	\$ 5,142
– Floating rate	6,641	14,982	14,747
Short-term debt interest – Operating loans	2,215	10,274	11,209
	21,292	29,865	31,098
Less interest allocated to discontinued operations	(1,949)	(2,736)	(7,097)
Interest expense per Consolidated Financial Statements	19,343	27,129	24,001
Interest paid on 9% Convertible Debentures included in dividend distribution (pre-tax)	2,885	5,663	5,184
Total adjusted interest	\$ 22,228	\$ 32,792	\$ 29,185

The fixed rate long-term debt interest expense relates primarily to the 10% Senior Notes issued May 1999. The floating rate long-term debt interest expense relates primarily to the 10.25% Senior Notes redeemed June 1999, which were previously swapped from fixed to floating rates based on LIBOR. The Company currently has no floating rate long-term debt.

Coverage Ratio

(in thousands of dollars, except ratios)

	1999	1998	1997
EBITDA	\$ 72,751	\$ 87,288	\$ 70,694
Total adjusted interest	22,228	32,792	29,185
Coverage ratio	3.3x	2.7x	2.4x

Capital Expenditures

Capital expenditures during 1999 were \$17.2 million compared to \$11.0 million in 1998. Russel Metals' capital expenditures are mainly related to maintenance capital, the purchase of additional processing equipment across a broad base of the operations and upgrades to its existing facilities and computer systems.

A major computer upgrade for Canadian service centers is substantially completed. During 1999, the Company converted its 36 Canadian service center locations to an industry specific business operation system that is Year 2000 compliant. Additional enhancements to this system will occur in 2000. Also, a number of other units completed upgrades or conversions to ensure they were Year 2000 compliant. The Company capitalized approximately \$7.9 million related to development costs and computer equipment in 1999. The costs capitalized represent development and implementation costs incurred during 1999 for new systems as well as hardware and software replacement costs related to these conversions and replacement of equipment in relation to Year 2000. The Company expensed the costs of internal employees working on Year 2000 projects.

Depreciation expense was \$10.0 million for 1999 and \$8.8 million for 1998.

Russel Metals' ability to meet its debt service and principal repayments significantly improved during 1998 and improved further in 1999. The coverage ratios set forth below are calculated using EBITDA and interest (calculated under Canadian GAAP) plus the interest on the 9% Convertible Debentures shown as a dividend distribution. This calculation approximates the coverage ratio calculated under U.S. GAAP.

Discontinued

As at December 31, 1999, \$8.4 million of unspent but expensed discontinued provisions have been included in current liabilities – discontinued operations compared to \$15.4 million at December 31, 1998. The actual application of the provisions is projected to occur as the specific charges or recoveries are crystallized during the next several years as assets are sold or actual expenses are incurred.

Russel Metals continues to aggressively pursue its insurance claim for 100% recovery of more than \$27 million spent but not yet recovered to replace the Skagway, Alaska dock lost in an underwater avalanche in 1994, plus legal fees and accrued interest. Russel Metals commenced legal action against its insurers in September 1995 to recover these expenditures. The Company has charged the legal fees related to the above claim to the discontinued provision and has expensed the interest costs.

Liquidity

Overall cash flow for 1999 was \$78.2 million. Cash generated from operating activities was \$141.5 million. Cash was utilized to fund capital expenditures of \$17.2 million, for the redemption of long-term debt of \$14.2 million and the purchase of 3.5 million common shares for \$12.5 million under a normal course issuer bid.

Inventory is a major component of the Company's working capital and inventory levels impact liquidity. The inventory turns calculated using cost of sales and ending inventory are as follows:

Inventory Turns

	Quarters Ended				
	Dec 31, 1999	Sept 30, 1999	June 30, 1999	Mar 31, 1999	Dec 31, 1998
Service center distribution	3.9	4.0	4.2	4.3	3.6
Energy sector distribution	4.0	3.9	3.7	3.7	3.6
Steel import/export	6.2	7.0	4.8	4.9	4.7
Total metals operations	4.4	4.6	4.2	4.3	3.9

The Company's inventory turns for 1999 show an improvement over the fourth quarter of 1998 due to inventory reductions during 1999 to achieve levels appropriate to the current sales volume. Total inventory reductions from December 31, 1998 to December 31, 1999 were \$77.3 million.

The service center inventory at December 31, 1999 was \$21.4 million lower than at December 31, 1998. The service center inventory turns for the quarter ended December 31, 1999 were 3.9 compared to industry turns estimated to be 3.2 for the quarter ended December 31, 1999 as derived from the monthly Business Conditions Report published for the United States by the Steel Service Center Institute.

Inventories in the energy sector at December 31, 1999 were \$13.4 million lower than at December 31, 1998. Inventories in the steel import/export sector were reduced \$42.5 million from December 31, 1998 to December 31, 1999 related to the reduced import activity since fourth quarter 1998 and the rationalizing of the two Houston operations.

Debt

On May 26, 1999, the Company completed the issue of new Senior Notes of US\$125 million due June 1, 2009 bearing interest at 10%. The proceeds of this issue plus cash on hand were used to redeem the outstanding 10.25% Senior Notes of US\$87 million on June 25, 1999 and the outstanding 9% Convertible Debentures of \$70.3 million on June 28, 1999.

With the completion of this new debt issue, the Company's first long-term debt maturity is now in 2006 in the amount of \$30 million.

Russel Metals has a Bank Credit Facility with a syndicate of Canadian and U.S. banks. The four year \$253.8 million facility may be extended for an additional one year period on each anniversary, with the consent of the banks. Russel Metals has extended the facility to December 19, 2003. Russel Metals is entitled to borrow under this Bank Credit Facility, on a revolving

basis, up to an amount equal to the sum of specified percentages of eligible accounts receivable and inventories, to a maximum of \$253.8 million. At December 31, 1999, Russel Metals was entitled to borrow \$201.2 million. At December 31, 1999, Russel Metals was not borrowing under the facility but had \$26.3 million in letters of credit compared to \$53.5 million in borrowings and \$20.4 million in letters of credit at December 31, 1998.

In addition, certain U.S. subsidiaries of Russel Metals have their own one year Bank Credit Facilities. The maximum borrowing under these facilities is US\$53.5 million. At December 31, 1999, these subsidiaries had borrowings of US\$1.8 million and letters of credit of US\$6.9 million compared to borrowings of US\$26.3 million and letters of credit of US\$2.2 million at December 31, 1998. The above borrowing figures under all facilities for December 31, 1999 are gross before netting cash on hand of \$22.7 million at December 31, 1999 and \$35.5 million at December 31, 1998.

Management believes that its liquidity position is enhanced by the net tax operating losses available to reduce Canadian cash taxes payable from future earnings. The availability of tax losses reduced taxes payable by approximately \$13.1 million in 1999 and \$10.3 million in 1998. The non-capital losses were generated primarily by non-metals business operating losses and financing costs and would be lost on a change of control. (See Note 8 to the Consolidated Financial Statements.)

Based on Russel Metals' current financial position and management's estimate of the results of operations prepared for internal planning purposes, Russel Metals believes that it will generate a sufficient amount of cash flow from operations to pay all of its preferred share dividends, interest obligations on its indebtedness, and operating costs as they become due during the next two years.

Pensions and Benefits

The Company adopted the new Canadian accounting standards for employee future benefits effective January 1, 1999. These new standards require accrual accounting for retirement and post-employment benefits and the use of current market rates to estimate the present value of the pension liability. Prior to January 1, 1999, the cost of post-retirement benefits other than pensions, such as health and life insurance benefits for retirees, were charged to earnings when paid. The new standard will essentially harmonize Canadian accounting standards with the standards in the United States. The transitional obligation of \$14.3 million arising out of the application of the new standards has been charged to retained earnings.

The transitional obligation was significantly impacted by the change in discount rate from 8% for 1998 to 6% for 1999.

The Company provides post-retirement benefits under one of its union contracts. The employees in this group represent approximately 6% of all active employees. A large portion of the benefit obligation is for retired employees in discontinued operations. (See Note 13 to the Consolidated Financial Statements.)

Year 2000

The Year 2000 computer issue is common to businesses around the world, including Russel Metals, its suppliers and its customers. Many computer programs use two rather than four digits to define a year, and date-sensitive software may recognize a date ending in "00" as the year 1900, rather than 2000. This could result in system failures or miscalculations causing disruptions of operations such as a temporary inability to process transactions before, on, or after January 1, 2000. At this point, the Company has not been affected by the Year 2000 issue. The Company's employees continue to monitor information processed to ensure any potential Year 2000 issues are resolved.

Subsequent Events

Income Taxes

The Company is adopting the Canadian Institute of Chartered Accountants' new accounting standard for income taxes effective January 1, 2000.

Under the new standard, the tax benefit of operating losses is included on the balance sheet if it is "more likely than not" that it will be utilized, compared to, under the old standard the tax benefit of loss carry forwards was only recorded where recovery was deemed to be "virtually certain." The change in accounting policy results in an adjustment to retained earnings for net operating losses and timing differences that meet this new criteria. The Company has made an adjustment increasing retained earnings by \$18.6 million, which re-establishes a portion of the income tax balances previously written off in 1996.

As a result of this adjustment, the Company will be required to provide an income tax expense on both Canadian and U.S. taxable earnings in 2000. The Company estimates the average effective tax rate to be approximately 40%, based on current income tax rates in effect in the jurisdictions where it currently operates. Any changes in the currently enacted rates at the balance sheet date will be adjusted through the income statement in the year enacted, including any adjustments for future income tax balances.

The Company's debt to equity ratio has improved to 0.7 after adjusting for the new accounting standards for income taxes.

Divestiture of Remaining Interest in Cashway

On February 5, 2000, the Company signed an agreement to divest its remaining assets related to the Cashway business. At closing, the Company will receive \$29.4 million of gross proceeds, less \$3.6 million in notes due during the next two years, for its long-term receivable, minority equity interest and property and buildings occupied by Cashway stores.

Outlook

The increase in oil pricing has generated additional activity in the energy markets which we anticipate will continue during the first quarter of 2000 through spring thaw in Canada. The remainder of the year is dependent on the continued strength in oil pricing.

Stronger prices should result in increased earnings in the service center distribution and the import/export operations during the first half of 2000; however, additional capacity currently being added by North American mills could affect pricing and volume during the second half of 2000.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial system.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

The Company's Audit Committee is appointed annually by the Board of Directors and is comprised of Directors, all of whom are neither employees nor officers of the Company. The Audit Committee meets with management as well as with external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP on behalf of the shareholders, in accordance with auditing standards generally accepted in Canada. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.



President and
Chief Executive Officer



Executive Vice President
and Chief Financial Officer

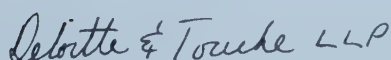
AUDITORS' REPORT

To the Shareholders, Russel Metals Inc.

We have audited the consolidated balance sheets of Russel Metals Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flow for each of the years in the three year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and cash flow for each of the years in the three year period ended December 31, 1999 in accordance with accounting principles generally accepted in Canada.



Chartered Accountants
Toronto, Ontario
February 7, 2000

At December 31 (\$000)	1999	1998
ASSETS		
Current		
Cash	\$ 19,968	\$ —
Accounts receivable	212,156	228,809
Income taxes recoverable (Note 8)	—	4,635
Inventories	254,527	331,790
Prepaid expenses and other assets	4,581	4,854
Current assets – discontinued operations (Note 11)	15,439	15,439
	506,671	585,527
Fixed		
Property, plant and equipment (Note 3)	96,265	90,045
Property held for resale – discontinued operations (Note 11)	19,941	26,351
	116,206	116,396
Other		
Long-term receivables (Note 4)	10,600	10,600
Other investments	4,539	4,258
Deferred financing charges	8,249	4,595
Goodwill	5,066	7,201
Deferred income taxes (Note 8)	4,522	—
Other assets	593	5,114
	33,569	31,768
	\$ 656,446	\$ 733,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 5)	\$ —	\$ 58,268
Accounts payable and accrued liabilities	173,415	182,287
Current income taxes payable (Note 8)	552	—
Current portion of long-term debt (Note 6)	—	4,943
Current liabilities – discontinued operations (Note 11)	8,353	15,442
	182,320	260,940
Long-Term Debt (Note 6)	210,413	163,154
Pensions and Benefits (Note 13)	9,411	—
	402,144	424,094
Contingencies and Commitments (Note 14)		
Shareholders' Equity and Convertible Debentures		
9% Convertible Debentures (Note 6)	—	65,817
Preferred shares (Note 9)	30,000	30,000
Shareholders' equity (Note 9)	224,302	213,780
	254,302	309,597
	\$ 656,446	\$ 733,691

On behalf of the Board,


Director


Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the Years Ended December 31 (\$000 except per share data)

	1999	1998	1997
Revenues	\$ 1,415,392	\$ 1,784,787	\$ 1,667,431
Cost of sales and operating expenses	1,356,172	1,709,192	1,607,269
	59,220	75,595	60,162
Interest expense – net (Note 7)	19,343	27,129	24,001
Earnings from continuing operations before the following	39,877	48,466	36,161
Provision for (recovery of) income taxes (Note 8)	(1,979)	8,333	6,418
Earnings from continuing operations	41,856	40,133	29,743
Earnings from discontinued operations (Note 11)	—	—	843
Net earnings for the year	41,856	40,133	30,586
Retained Earnings –			
Distributions on preferred shares and Convertible Debentures			
Dividends on preferred shares	(2,250)	(2,250)	(2,250)
9% Convertible Debentures (Note 6)	(2,885)	(5,663)	(5,184)
	(5,135)	(7,913)	(7,434)
Earnings available to common shareholders	36,721	32,220	23,152
Amount related to common shares purchased for cancellation	(1,097)	—	—
Dividends on common shares	—	—	(510)
Retained earnings, beginning of the year (Note 9)	54,862	22,642	—
Adjustment for pensions and benefits (Note 2)	(14,304)	—	—
Retained earnings, end of the year	\$ 76,182	\$ 54,862	\$ 22,642
Basic earnings per common share	\$ 0.74	\$ 0.63	\$ 0.45

For the Years Ended December 31 (\$000)	1999	1998	1997
Operating activities			
Net earnings for the year	\$ 41,856	\$ 40,133	\$ 29,743
Depreciation and amortization	12,444	11,693	10,532
Income taxes	665	742	9,345
Loss on sale of fixed assets	111	6	157
Debt redemption costs	1,087	—	—
Cash from continuing operating activities before working capital	56,163	52,574	49,777
Changes in working capital items of continuing operations			
Accounts receivable	16,653	33,440	(72,958)
Inventories	77,263	(30,021)	(85,984)
Accounts payable and accrued liabilities	(8,872)	(20,897)	27,333
Other	273	(155)	(579)
Change in non-cash working capital	85,317	(17,633)	(132,188)
Cash from (used in) continuing operating activities	141,480	34,941	(82,411)
Financing activities			
Issue of long-term debt	184,050	—	—
Redemption of long-term debt	(198,209)	(37,143)	(23,247)
Issue (purchase) of common shares	(12,481)	114	9
Distributions	(5,135)	(7,913)	(7,944)
Deferred financing costs	(7,070)	(761)	—
Cash used in financing activities	(38,845)	(45,703)	(31,182)
Investing activities			
Purchase of fixed assets	(17,249)	(11,002)	(8,823)
Proceeds on sale of fixed assets	341	3,015	316
Non-core assets	(383)	27,725	11,570
Other	(6,429)	2,402	5,759
Cash from (used in) investing activities	(23,720)	22,140	8,822
Increase (decrease) in cash from continuing operations	78,915	11,378	(104,771)
Cash from (used in) discontinued operations (Note 11)	(679)	11,024	68,919
Increase (decrease) in cash	78,236	22,402	(35,852)
Cash position, beginning of the year	(58,268)	(80,670)	(44,818)
Cash position, end of the year	\$ 19,968	\$ (58,268)	\$ (80,670)

NOTE: For the beginning of the years and December 31, 1998 and 1997, cash position represents bank indebtedness.

1. Summary of Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary companies. All material inter-company balances, transactions and profits have been eliminated.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles as applied in Canada, which are substantially the same as generally accepted accounting principles as applied in the United States. The material differences in accounting policies are disclosed in Note 17.

b) Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined substantially on an average cost basis.

c) Fixed assets and depreciation

Property, plant, equipment and leasehold improvements are recorded at cost. Depreciation is provided at rates that charge the original cost of such assets to operations over their estimated useful lives that average 20 years for buildings, 10 years for machinery and equipment, 5 years for leasehold improvements and 3 to 5 years for computer equipment. Depreciation expense was \$9,987,000 in 1999 (1998 – \$8,849,000; 1997 – \$8,547,000).

d) Deferred financing charges and amortization

Costs incurred that relate to financing are deferred and amortized over the period of the related financing. Deferred charges are recorded at cost less accumulated amortization. Amortization of deferred financing charges was \$1,382,000 in 1999 (1998 – \$1,674,000; 1997 – \$1,865,000). In addition, included in the debt redemption costs of \$1,087,000 is amortization expense of \$256,000 relating to the 9% Convertible Debentures and the 10.25% U.S. Senior Notes redeemed before maturity in June 1999.

e) Goodwill and amortization

Goodwill represents the excess purchase price paid on the acquisition of subsidiary companies over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over a period not exceeding ten years or written down when there has been a permanent impairment in value. In assessing whether a permanent impairment has occurred, the Company reviews the adequacy of the expected future rate of return for each investment where goodwill exists. Amortization recorded in 1999 was \$1,036,000 (1998 – \$1,134,000; 1997 – \$801,000).

f) Pensions

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the net pension asset are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups, using the corridor approach. The cost of post-retirement benefits other than pensions is recognized on an accrual basis over the working lives of employees. Prior to January 1, 1999, the cost of post-retirement benefits other than pensions, such as health and life insurance benefits for retirees, was charged to earnings when paid. The Company adopted the new Canadian accounting standards for employee future benefits effective January 1, 1999 (see Note 2).

g) Income taxes

The Company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes relating to reported earnings.

Differences between such taxes and taxes currently payable are reflected in the accounts and arise because certain items of revenue and expense are reported in the accounts at different times than reported for income tax purposes.

The Company is adopting the new Canadian accounting standards for income taxes effective January 1, 2000 (see Note 18).

h) Foreign currency translation

The accounts of foreign subsidiaries are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange for the year. The resulting gains or losses are accumulated as a separate component of shareholders' equity.

Exchange gains or losses on the translation of long-term debt denominated in foreign currency designated as a hedge of the Company's net investment in foreign subsidiaries are also included in the separate component in shareholders' equity. Exchange gains or losses on long-term debt denominated in foreign currencies not designated as a hedge are deferred and amortized over the remaining term of the debt. In 1999, amortization of \$507,000, relating to the 10.25% U.S. Senior Notes redeemed in June 1999, was included in the debt redemption

costs of \$1,087,000. Amortization of foreign exchange losses reported in 1998 was \$858,000 and in 1997 was \$124,000.

i) Other investments

Other investments are accounted for at cost and are written down when declines in value are other than temporary.

j) Earnings per share

Basic earnings per common share are calculated using the weighted daily average number of common shares outstanding. The weighted average number of common shares for 1999 was 49,573,917 (1998 – 51,029,103; 1997 – 51,008,279).

k) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. In particular, discontinued operations

includes amounts related to environmental clean up costs, legal claims and realizable value of assets from discontinued operations which represent management's best estimate. Actual results could differ from these estimates.

2. Change in Accounting Policy

The Company adopted the new Canadian accounting standards for employee future benefits effective January 1, 1999 and elected to adopt retroactively with no restatement. These new standards require accrual accounting for retirement and post-employment benefits and the use of current market rates to estimate the present value of the pension liability. Prior to January 1, 1999, the cost of post-retirement benefits other than pensions, such as health and life insurance benefits for retirees, were charged to earnings when paid. The new standard essentially harmonizes Canadian accounting standards with the standards in the United States. The transitional obligation of \$14,304,000 arising out of the application of the new standards has been charged to retained earnings. The effect of the change in the accounting policy is not significant in the current period.

3. Property, Plant and Equipment

(\$000)			1999	1998
	Cost	Accumulated Depreciation	Net	Net
Land and buildings	\$ 57,462	\$ 25,678	\$ 31,784	\$ 33,340
Machinery and equipment	134,525	81,121	53,404	45,386
Leasehold improvements	24,526	13,449	11,077	11,319
	\$ 216,513	\$ 120,248	\$ 96,265	\$ 90,045

4. Long-Term Receivables

The long-term receivables consist of interest bearing notes related to divestitures. The principal amount of \$10,600,000 originally due in 2000 has been rescheduled to become due in 2001.

5. Revolving Credit Facility

The Company has a Credit Agreement with a syndicate of banks which provides a line of credit to a maximum of \$253.8 million, including letters of credit. In July 1999, the Credit Agreement was extended to December 19, 2003. Borrowings under this facility are restricted by certain financial covenants with which the Company was in compliance at December 31, 1999. The obligations of

the Company under this Agreement are secured by a pledge of trade accounts receivable and inventories of substantially all of the Company's operations. At December 31, 1999, the Company had no borrowings (1998 – \$53.5 million) and letters of credit of \$26.3 million (1998 – \$20.4 million) under this facility. On the balance sheets, cash and funds invested short-term are netted with these numbers.

In addition, certain U.S. subsidiaries of the Company have their own credit facilities. The maximum borrowing under these facilities is US\$53.5 million. At December 31, 1999, these subsidiaries had borrowings of US\$1.8 million (1998 – US\$26.3 million) and letters of credit of US\$6.9 million (1998 – US\$2.2 million).

6. Long-Term Debt

(\$000)	1999	1998
10% Senior Notes (US\$125 million) due June 1, 2009	\$ 180,413	\$ —
8% Subordinated Debentures due June 15, 2006	30,000	30,000
9% Convertible Debentures	—	70,760
10.25% Senior Notes (US\$87 million)	—	133,154
	210,413	233,914
Less: Current portion of long-term debt	—	4,943
Equity portion of convertible debentures	—	65,817
	\$ 210,413	\$ 163,154

On May 26, 1999, the Company completed the issue of new Senior Notes of US\$125 million due June 2009 bearing interest at 10%. The proceeds of this issue plus cash on hand were used to redeem the outstanding 10.25% Senior Notes of US\$87 million on June 25, 1999 and the outstanding 9% Convertible Debentures of \$70.3 million on June 28, 1999.

US\$75 million of these are notes of Russel Metals Inc., legal entity, and have been designated as a hedge offsetting the Company's net investment in foreign subsidiaries. The remaining US\$50 million are notes of RMI USA LLC, a U.S. subsidiary of Russel Metals Inc.

The notes are redeemable, as units, in whole or in part, at the joint option of the Company and the U.S. Subsidiary,

on or after June 1, 2004 at 105% of the principal amount declining rateably to 100% of the principal amount on or after June 1, 2007. In addition, the notes are also redeemable, in whole, at the option of the Company at any time at 100% of the principal amount in the event of certain changes affecting Canadian withholding taxes.

The 8% Subordinated Debentures, which are unsecured and mature in June 2006, are redeemable at par subject to certain conditions being met.

The 9% Convertible Debentures were split into a debt component and an equity component in the 1998 balance sheet as required by the Canadian accounting standards.

7. Interest Expense

(\$000)	1999	1998	1997
Interest on long-term debt	\$ 19,077	\$ 19,591	\$ 19,889
Other interest expense	2,215	10,274	11,209
	21,292	29,865	31,098
Less portion allocated to discontinued operations	1,949	2,736	7,097
Interest expense continuing operations	\$ 19,343	\$ 27,129	\$ 24,001

Total interest paid by the Company, including pre-tax amounts recorded in retained earnings as a distribution for the 9% Convertible Debentures included in equity, in 1999 was \$23,750,000 (1998 – \$37,148,000; and 1997 – \$36,216,000).

8. Income Taxes

a) The current and deferred income tax balances consist of:

(\$000)	1999	1998
Deferred tax assets		
Losses and provisions carried forward	\$ 31,402	\$ 70,351
Tax depreciation in excess of book	8,155	8,017
Pension and benefit accounting differences	3,540	—
Gross deferred tax assets	43,097	78,368
Unrecorded tax benefits related to Canadian entities	(37,666)	(67,674)
	5,431	10,694
Deferred tax liabilities		
Pension accounting differences	—	(1,832)
Other timing	(1,461)	(4,227)
	(1,461)	(6,059)
	3,970	4,635
Current income taxes recoverable (payable)	(552)	4,635
Deferred income taxes	\$ 4,522	\$ —

At December 31, 1996, the Company determined that virtual certainty of realizing all tax benefits within Canada was not present. In 1999, current timing differences related to Canadian earnings were recorded as deferred income taxes.

b) The Company's effective income tax rate from continuing operations is derived as follows:

	1999	1998	1997
Average combined statutory rate	45.0%	45.0%	45.0%
Benefit of losses carried forward	(39.6)%	(21.3)%	(24.5)%
Benefit of current year timing differences	(11.3)%	—	—
Other	0.9%	(6.5)%	(2.8)%
Average effective tax rate	(5.0)%	17.2%	17.7%

c) Income taxes recovered (paid) in 1999 were \$2,352,000 (1998 – \$(7,554,000); 1997 – \$1,323,000).

d) The Company has Canadian net operating losses carried forward for tax purposes from continuing operations, which have not been recognized in the financial statements and expire as follows:

(\$000)	Year of Expiry	Amount
	2000	\$ 8,280
	2001	5,772
	2002	18,187
	2003	41
	2004	385
	2005	2,796

In addition, the Company has unrecorded provisions, timing differences and tax depreciation in excess of book of approximately \$23.7 million available for utilization in future years in continuing operations.

e) The Company is adopting the new Canadian accounting standards for income taxes effective January 1, 2000 (see Note 18).

9. Shareholders' Equity

a) The components of shareholders' equity are as follows:

(\$000)	1999	1998
Class II preferred shares, Series C	\$ 30,000	\$ 30,000
Common shares	152,571	163,955
Retained earnings	76,182	54,862
Cumulative translation adjustment	(4,451)	(5,037)
	\$ 254,302	\$ 243,780

b) At December 31, 1999, the authorized share capital of the Company consists of:

- (i) an unlimited number of common shares without nominal or par value;
- (ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and
- (iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

Authorized – 1,200,000 cumulative, redeemable Class II preferred shares, Series C with annual cash dividends of \$1.875 per share payable in quarterly instalments. This series of Class II preferred shares is non-voting and is redeemable at a price of \$25 per share without condition.

On May 6, 1998, the shareholders of the Company approved a resolution that changed the Class B shares into Class A shares creating a single class of common shares and to re-designate the Class A shares as common shares.

Prior to May 6, 1998, both the Class A common shares and the Class B common shares were interconvertible at any time at the option of the holder on a share for share basis. The basic difference between the two classes of shares was that dividends on Class A common shares were payable in the form of cash dividends, while dividends on Class B common shares were payable in the form of stock dividends, payable in Class B common shares.

The Directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except the Class I shares shall be entitled to preference over the

Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

c) The number of shares issued and outstanding at December 31 was as follows:

Number of Shares	1999	1998
Class II preferred, Series C	1,200,000	1,200,000
Common shares	47,489,547	51,035,847

On February 22, 1999, the Company's normal course issuer bid was approved, allowing the Company to purchase on the open market up to 2,500,000 common shares over a twelve month period. On September 1, 1999, the Company received approval to increase the number of common shares eligible for purchase and cancellation to 3,700,000. As of December 31, 1999, 3,546,300 common shares have been purchased and cancelled.

During 1998, 26,000 common shares were issued related to the exercise of stock options, and 17 fractional shares were bought from Class B holders on conversion to Class A shares.

d) The Company has a shareholder approved share option plan, the purpose of which is to provide the Directors and employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The number of common shares that may be issued upon the exercise of options granted under the share option plan is 4,500,000 common shares. The options are exercisable on a cumulative basis to the extent of either 33 $\frac{1}{3}$ % or 20% per year of total options granted, except that under certain specified conditions the options become exercisable immediately. Any consideration paid by employees for purchase of common shares is added to share capital.

12. Segmented Information

The Company conducts business primarily in three metals business segments. The remaining operation, disclosed as other, was formerly included in the discontinued Transport segment.

i) Service center distribution

The Company's network of service centers carries a full line of steel products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. The Company services all major geographic regions of Canada and selected regions in the United States.

ii) Energy sector distribution

The Company's energy sector distribution operations carry a more specialized and limited product line than the steel service centers. These operations distribute pipe, tubular products and valves, primarily to the energy sector in Western Canada and the Western United States.

iii) Steel import/export

The Company's steel import/export business exports steel products to international end users and imports foreign steel products into Canada and the United States primarily for sale to third party steel service centers.

The Company has segmented its operations on the basis of management reporting and geographic segments in which it operates.

a) Results by business segment:

(\$000)	1999	1998	1997
Segment Revenues			
Service center distribution	\$ 760,568	\$ 875,229	\$ 823,129
Energy sector distribution	274,519	353,424	411,593
Steel import/export	369,285	556,134	432,709
	1,404,372	1,784,787	1,667,431
Other	11,020	—	—
	\$ 1,415,392	\$ 1,784,787	\$ 1,667,431
Segment Operating Profits			
Service center distribution	\$ 39,501	\$ 45,929	\$ 25,875
Energy sector distribution	7,362	16,401	22,350
Steel import/export	17,811	22,601	19,643
	64,674	84,931	67,868
Other income	3,513	—	1,709
Corporate expenses	(7,880)	(9,336)	(9,415)
Debt redemption costs	(1,087)	—	—
Interest expense	(19,343)	(27,129)	(24,001)
Earnings from continuing operations before income taxes	\$ 39,877	\$ 48,466	\$ 36,161
Identifiable Assets			
Service center distribution	\$ 316,823	\$ 322,070	\$ 336,146
Energy sector distribution	124,240	138,426	143,556
Steel import/export	104,440	168,897	157,751
Identifiable assets by segment	545,503	629,393	637,453
Assets not included in segments			
Cash	19,968	—	—
Income tax assets	4,522	4,635	5,377
Long-term receivables	10,600	10,600	10,750
Other investments	4,539	4,258	11,701
Deferred financing charges	8,249	4,595	5,211
Other assets	593	5,114	5,046
Corporate and other operating assets	27,092	33,306	29,830
Discontinued assets	35,380	41,790	56,665
Total assets	\$ 656,446	\$ 733,691	\$ 762,033

b) Results by geographic segment:

(\$000)	1999	1998	1997
Segment Revenues			
Canada	\$ 903,295	\$ 1,041,973	\$ 1,058,158
United States	501,077	742,814	609,273
	\$ 1,404,372	\$ 1,784,787	\$ 1,667,431
Segment Operating Profits			
Canada	\$ 56,306	\$ 60,703	\$ 53,879
United States	8,368	24,228	13,989
	\$ 64,674	\$ 84,931	\$ 67,868
Identifiable Assets			
Canada	\$ 390,850	\$ 378,969	\$ 399,972
United States	154,653	250,424	237,481
	\$ 545,503	\$ 629,393	\$ 637,453

13. Pensions and Benefits

The Company maintains defined benefit pension plans and defined contribution pension plans in Canada and 401(k) defined contribution pension plans in the United States.

The components for the Company's pension expense include the following:

(\$000)	1999	1998	1997
Defined benefit plans			
Benefits earned during the year	\$ 1,386	\$ 1,213	\$ 1,157
Interest cost on benefit obligation	2,838	2,487	2,625
Return on plan assets	(2,977)	(2,964)	(2,876)
Other	—	330	103
	1,247	1,066	1,009
Defined contribution plans			
Paid during the year	1,020	925	682
Pension expense	2,267	1,991	1,691
Charged to discontinued provision	(300)	—	—
Pension expense – continuing operations	\$ 1,967	\$ 1,991	\$ 1,691

The actuarial determinations were based on the following assumptions in each year:

	1999	1998	1997
Assumed discount rate – year end	7.5%	8%	8%
Expected long-term rate of return on plan assets	7.0%	8%	8%
Rate of increase in future compensation	4.0%	5%	5%
Rate of increase in future government benefits	3.5%	4%	4%

The health care cost trend rates used were 5% for dental and 11% graded out for medical, which is reduced 1% per year until 5% and 5% thereafter. A 1% increase in trend rates would result in an increase in the accrued benefit obligation for post-retirement benefits of between 6% and 7.5%.

The following information pertains to the Company's defined benefit pension plans, excluding those which are in the process of being wound up.

(\$000)	Pension Plans		Other Benefit Plans
	1999	1998	1999
Reconciliation of Accrued Benefit Obligation			
Balance, beginning of the year	\$ 41,531	\$ 41,461	\$ 5,893
Current service cost	1,794	1,520	48
Interest cost	2,838	2,487	347
Benefits paid	(3,949)	(5,165)	(265)
Actuarial gains	(256)	1,228	(1,047)
Balance, end of the year	\$ 41,958	\$ 41,531	\$ 4,976
Reconciliation of Fair Value of Plan Assets			
Balance, beginning of the year	\$ 43,218	\$ 45,246	\$ —
Actual return of plan assets	5,056	1,250	—
Employer contributions	2,128	1,596	265
Employee contributions	408	291	—
Benefits paid	(3,949)	(5,165)	(265)
Balance, end of the year	\$ 46,861	\$ 43,218	\$ —
Unamortized Amounts			
Funded status – surplus/(deficit)	\$ 4,903	\$ 1,687	\$ (4,976)
Unamortized net actuarial loss (gain)	(8,291)	604	(1,047)
Other unamortized amounts	—	1,931	—
Accrued benefit asset/(liability)	\$ (3,388)	\$ 4,222	\$ (6,023)

As at December 31, 1999, the Company has certain unfunded executive arrangements with an accrued benefit obligation of \$4,724,000. As at December 31, 1998, two of the Company's pension plans, included in the above table, had a projected benefit obligation of \$11.1 million, fair value of the plan assets of \$9.5 million and an unfunded obligation of \$1.6 million. At December 31, 1999, these plans were fully funded.

The other benefit plans primarily represent obligations to retired employees of discontinued operations. Approximately 6% of all active employees are entitled to retirement benefits.

(\$000)	1999	1998
Plans in the Process of Being Wound Up		
Fair value of plan assets	\$ 16,927	\$ 18,650
Projected benefit obligation	(3,200)	(4,721)
Surplus	\$ 13,727	\$ 13,929
Defined Contribution Plans		
Fair value of plan assets		
Canadian plans	\$ 188	\$ 178
401(k) U.S. plans	19,284	17,456
	\$ 19,472	\$ 17,634

As at December 31, 1999, approximately 52% of all pension plan assets were invested in equities, 26% in fixed income securities, and 22% in cash.

14. Contingencies and Commitments

a) The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these claims cannot be determined, in the opinion of management the resolution of these matters is not expected to have a materially adverse effect on the Company's financial position, cash flows or operations since an estimate of these claims has already been provided.

b) The Company and its subsidiary companies have operating lease commitments, with varying terms, requiring annual payments approximately as follows: 2000 – \$12,235,000; 2001 – \$8,159,000; 2002 – \$6,347,000; 2003 – \$5,191,000; 2004 – \$3,472,000; 2005 and beyond – \$6,461,000.

c) The Company is incurring site cleanup and restoration costs related to properties held for resale reported in discontinued operations. Remedial actions are currently underway at several sites. The estimated costs of these cleanups have been provided for in a 1996 special charge recorded in discontinued operations. Additional costs may be incurred at these or other sites, but the amounts are not quantified at this time.

15. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

16. Comparative Figures

Certain 1998 and 1997 figures have been reclassified to conform to the 1999 financial statement presentation.

17. United States Generally Accepted Accounting Principles

The Company's accounting policies, as reflected in these consolidated financial statements, conform to generally accepted accounting principles in the United States (U.S. GAAP) except for:

- a) The portion of the gain or loss on translation of the Company's foreign currency denominated debt which is not hedged is deferred and amortized over the remaining life of the debt. Under U.S. GAAP, the gain or loss on translation is included in income when it arises.
- b) The 9% Convertible Debentures, redeemed in June 1999, were split between long-term debt and shareholders' equity. Under U.S. GAAP, the debenture would have been treated as a debt instrument. Interest expense recorded as a distribution from retained earnings would have been included in net income (see Note 6).
- c) Under U.S. GAAP, the Company is required to account for deferred income taxes using the liability method whereby deferred tax assets and liabilities are measured at currently enacted tax rates and valuation allowances are required when it is "more likely than not" that portions of the deferred tax assets will not be realized. Prior to 1999, the valuation allowance was equal to the deferred tax asset since the probability of realization was not "more likely than not." During 1999, the more likely than not standard was met on certain deferred tax assets resulting in a realization of prior year taxes of \$18.7 million. Subsequent to year end, the Company adopted the new Canadian accounting standards which are similar to the U.S. standard (see Note 18).
- d) Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions, requires that the transitional obligation be amortized over the expected average service lives of the employee groups rather than charged to retained earnings immediately as allowed under the Canadian standards.

e) The following table represents net earnings and earnings per share information following U.S. GAAP:

(\$000)	1999	1998	1997
Net earnings for the year	\$ 41,856	\$ 40,133	\$ 30,586
Amortization of unrealized exchange loss on long-term debt	507	858	124
Unrealized exchange gain (loss) on long-term debt	767	(1,155)	(347)
Distribution – 9% Convertible Debentures	(2,885)	(5,663)	(5,184)
Recovery of income taxes	18,665	—	—
Amortization of transitional obligation	(561)	—	—
Net earnings according to U.S. GAAP	58,349	34,173	25,179
Distributions – U.S. GAAP	2,250	2,250	2,250
Net earnings available to common shareholders – U.S. GAAP	\$ 56,099	\$ 31,923	\$ 22,929
Basic earnings per common share – Canadian GAAP	\$ 0.74	\$ 0.63	\$ 0.45
Basic earnings per common share – U.S. GAAP	\$ 1.13	\$ 0.63	\$ 0.45

f) The only component of other comprehensive income is changes in the cumulative translation account. This account represents a reduction in the Company's shareholders' equity and represents unrealized translation adjustments which arise on the translation to Canadian dollars of foreign denominated assets and liabilities. Changes in this account were: 1999 – decrease of \$586,000; 1998 – increase of \$57,000; 1997 – decrease of \$642,000.

g) Allowance for doubtful accounts for the Company's operations at December 31, 1999 and 1998 was \$3,551,000 and \$4,749,000, respectively.

h) Consolidated cash flow statements

Under U.S. GAAP, bank indebtedness would not be included in cash and therefore cash for 1998 and 1997 would be zero; further, there would be the following reclassification in the presentation of the consolidated cash flow statements:

Reclassification of changes in bank indebtedness from increase (decrease) in cash to increase (decrease) in bank indebtedness in financing activities.

The amounts involved and the effects on various lines on the Statements are as follows:

(\$000)	1999	1998	1997
Amounts involved			
Increase (decrease)			
in bank indebtedness	\$ —	\$ (22,402)	\$ 35,852
Revised totals			
Cash from (used in)			
financing activities	—	(67,344)	4,670

i) In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities for fiscal years beginning after June 15, 2000. This statement requires the recognition of all derivatives in the consolidated balance sheet as either assets or liabilities measured at fair value. The Company will adopt this statement in relation to its U.S. GAAP disclosure effective for the 2001 calendar year end. The Company has not yet determined the impact this statement will have on its financial position or results of operations when adopted.

j) Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, establishes standards for accounting and reporting for stock-based employee compensation plans and transactions to acquire goods or services from non-employees. As permitted by this statement, the Company has elected to continue to follow the value-based method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board Opinion 25.

k) In accordance with SFAS No. 123, Accounting for Stock-Based Compensation, the Company has elected to continue to account for stock compensation under APB No. 25. Pro forma net earnings and earnings per share, as calculated under SFAS No. 123, are as follows:

	1999	1998	1997
Net earnings according to U.S. GAAP (\$000)	\$ 57,347	\$ 33,372	\$ 24,738
Basic earnings per common share			
- U.S. GAAP	\$ 1.11	\$ 0.61	\$ 0.44

The weighted average fair value of the stock options granted during 1999, 1998 and 1997 was \$2.33, \$4.07 and \$3.24, respectively. The fair value of each option granted was estimated using the Black-Scholes option-pricing model based on the date of the grant, the 10 year expected life of all options granted during 1999, 1998 and 1997, 0% dividend yield, risk free rate of return of 5% and the expected volatility of 48.9% for 1999, 68.72% for 1998, and 50.33% for 1997.

18. Subsequent Events

a) Effective January 1, 2000, the Company is adopting the Canadian Institute of Chartered Accountants' new standards for Income Taxes (Section 3465). The following outlines the impact of adopting this standard.

Under the new standard, the tax benefit of operating losses is included on the balance sheet if it is "more likely than not" that it will be utilized, compared to, under the old standard the tax benefit of loss carry forwards was only recorded where recovery was deemed to be "virtually certain."

Also, the new standard requires future income tax assets and liabilities to be valued based on currently enacted rates at the balance sheet date, compared to, under the old standard future income tax balances were measured at tax rates prevailing at the time the provision for future income taxes was established.

These new standards are similar to U.S. GAAP as contained in FASB Statement No. 109.

Implementation of this new standard would result in a net increase in recorded tax assets and shareholders' equity of \$17.8 million at December 31, 1999.

The impact of these adjustments is included in the pro forma summary balance sheet as at December 31, 1999:

	Prior to Adoption	Increase (Decrease)	Pro Forma
Current assets – other than taxes	\$ 506,671	\$ —	\$ 506,671
Income taxes recoverable	—	10,701	10,701
Fixed assets	116,206	—	116,206
Other – other than future income taxes	29,047	—	29,047
Future income tax assets	4,522	15,138	19,660
Total assets	\$ 656,446	\$ 25,839	\$ 682,285
Current liabilities – other than taxes	\$ 181,768	\$ —	\$ 181,768
Current income taxes payable	552	2,313	2,865
Long-term debt	210,413	—	210,413
Future income taxes	—	5,759	5,759
Pensions and benefits	9,411	—	9,411
Preferred shares	30,000	—	30,000
Common shares	152,571	—	152,571
Retained earnings	76,182	18,665	94,847
Cumulative translation adjustment	(4,451)	(898)	(5,349)
Total equity and liabilities	\$ 656,446	\$ 25,839	\$ 682,285

b) Cashway

On February 5, 2000, the Company signed an agreement to divest its remaining assets related to the Cashway business. At closing, the Company will receive \$29.4 million of gross proceeds, less \$3.6 million in notes due during the next two years, for its long-term receivable, minority equity interest and property and buildings occupied by Cashway stores.

THE MEMBERS OF THE BOARD OF DIRECTORS ARE:

Carl R. Fiora
Corporate Director,
steel industry executive

David A. King
President,
David King Corporation

K. (Rai) Sahi
Chairman and Chief Executive Officer,
Acktion Corporation

Martin H. Freedman, Q.C.
Partner, Aikins, MacAulay & Thorvaldson
Barristers & Solicitors

Jere I. Klivansky
Corporate Director,
steel industry executive

Edward M. Siegel, Jr.
President and Chief Executive Officer,
Russel Metals Inc.

Anthony F. Griffiths
Corporate Director, Chairman of the Board,
Russel Metals Inc.

Lise Lachapelle
President and Chief Executive Officer,
The Canadian Pulp and Paper Association

Arni C. Thorsteinson
President,
Shelter Canadian Properties Limited

Robbert Hartog
President,
Robhar Investments Ltd.

John W. Robinson
Corporate Director,
steel industry executive

Bruce V. Walter
Managing Director, Co-Head Media,
Telecom & Tech Group, Nesbitt Burns Inc.

Russel Metals' Board of Directors places high value on the responsible fulfilment of its duties to the Company and its shareholders. The Board has considered and modified, where changes have been identified, its corporate governance practices in light of the guidelines set out in the 1994 Toronto Stock Exchange Committee on Corporate Governance and current advances in Corporate Governance and is satisfied it operates effectively and independently of management.

Mandate of the Board The Board's mandate is to supervise the management of the business and affairs of the Company. Through the Board's stewardship of the Company, the goal is to enhance long-term value for the shareholders. The Board discharges its responsibility by delegating to management responsibility for day-to-day operations of the business, by monitoring the Company's performance and by considering and approving the Company's strategic direction. The Board has implemented a number of practices to promote effective governance, including a written job description for the CEO, an annual written questionnaire to all directors and at least two annual Board meetings where management is not present for portions of the meeting.

Composition of the Board The Directors bring to the Company a balance of industry and operational expertise as well as backgrounds in other areas which the Board believes are of benefit. The Board has concluded that all of the Directors of the Company, other than Mr. Siegel, are unrelated within the meaning of the Toronto Stock Exchange Report.

Committees of the Board The Board delegates certain of its functions to four committees of the Board to facilitate more detailed consideration of certain issues. Each of the committees is comprised entirely of unrelated directors.

Audit Committee The Audit Committee reviews the Company's financial statements, monitors internal control procedures and meets regularly with the external auditors. The members are: M.H. Freedman, R. Hartog, L. Lachapelle (chair), and J.W. Robinson.

Corporate Governance Committee The Corporate Governance Committee develops comprehensive written mandates for each of the Board committees, monitors and evaluates the corporate governance system, recommends candidates for election to the Board and serves as a forum for concerns of directors which may not be appropriate for discussion in full Board meetings. The members are: C.R. Fiora, A.F. Griffiths (chair), L. Lachapelle and A.C. Thorsteinson.

Management Resources and Compensation Committee The Management Resources and Compensation Committee reviews compensation policies for the Company's executive officers and is responsible for succession planning for the most senior members of management. The members are: C.R. Fiora, A.F. Griffiths, R. Hartog, and A.C. Thorsteinson (chair).

Environmental Management and Safety Committee The Company has established an Environmental Management and Safety Committee for the purpose of reviewing and developing compliance policies and programs and procedures in accordance with legislative and regulatory requirements. The members are: C.R. Fiora (chair), M.H. Freedman and J.W. Robinson.

Additional information about the Company's governance practices may be found in the Management Proxy Circular.

1999

(Unaudited)

	Three Months Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues (\$000)	\$ 362,123	\$ 347,684	\$ 352,880	\$ 352,705	\$1,415,392
Earnings before interest and taxes (\$000)	12,296	12,234	13,529	21,161	59,220
Earnings before taxes (\$000)	7,492	7,931	8,001	16,453	39,877
Net earnings (\$000)	6,949	6,990	7,676	20,241	41,856
Basic earnings per common share	\$ 0.10	\$ 0.10	\$ 0.14	\$ 0.41	\$ 0.74
Market price of common shares					
High	\$ 3.60	\$ 4.40	\$ 4.09	\$ 4.25	\$ 4.40
Low	\$ 3.15	\$ 3.25	\$ 3.05	\$ 2.50	\$ 2.50
Number of common shares traded	3,229,776	2,521,357	2,876,215	3,544,714	12,172,062

1998

(Unaudited)

	Three Months Ended				Year Ended
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenues (\$000)	\$ 464,873	\$ 473,479	\$ 459,612	\$ 386,823	\$ 1,784,787
Earnings before interest and taxes (\$000)	22,496	21,582	17,409	14,108	75,595
Earnings before taxes (\$000)	15,030	14,904	10,335	8,197	48,466
Net earnings (\$000)	12,133	11,082	8,822	8,096	40,133
Basic earnings per common share	\$ 0.20	\$ 0.18	\$ 0.13	\$ 0.12	\$ 0.63
Market price of common shares					
High	\$ 5.85	\$ 6.25	\$ 4.75	\$ 3.80	\$ 6.25
Low	\$ 3.25	\$ 4.65	\$ 2.85	\$ 2.51	\$ 2.51
Number of common shares traded	2,412,341	2,859,729	4,711,732	7,515,643	17,499,445

Directory

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OFFICERS

Anthony F. Griffiths
Chairman of the Board
Toronto

Edward M. Siegel, Jr.
President and Chief Executive Officer
Mississauga

Brian R. Hedges
Executive Vice President and
Chief Financial Officer
Mississauga

Robert R.M. Young
Executive Vice President
Tulsa

William M. O'Reilly
Secretary
Toronto

Marion E. Britton
Vice President, Controller and
Assistant Secretary
Mississauga

Elaine G. Hillis
Assistant Secretary
Mississauga

INVESTOR RELATIONS CONTACT

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Assistant Secretary
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TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
Canada M5G 2W9
Answer line: Toronto (416) 643-5500
Toll free: 1-800-387-0825
E-mail: inquiries@cibcmellon.ca
Website: www.cibcmellon.ca

Mellon Securities Trust Company
New York

STOCK SYMBOLS:

TSE, WSE: RUS, RUS.PR.C
NASDAQ: RUSM

Metal Operations

SERVICE CENTER DISTRIBUTION

Canadian Steel Service Centers
1900 Minnesota Court,
Suite 210
Mississauga, Ontario
Canada L5N 3C9
Tel: (905) 819-7777

Operating across Canada under the following names: B&T Steel, Drummond McCall, Métaux Russel, Russel Metals

Russel Metals - Bahcall Group
975N. Meade Street
Appleton, Wisconsin
U.S.A. 54192
Tel: 1-800-875-7624

Baldwin International
30403 Bruce Industrial Parkway
Solon, Ohio
U.S.A. 44139
Tel: (440) 248-9500

Copco Steel
17199 North Laurel Park Drive
Suite 302
Livonia, Michigan
U.S.A. 48152
Tel: (734) 464-7900

ENERGY SECTOR DISTRIBUTION

Comco Pipe and Supply Company
5910-17 Street
Edmonton, Alberta
Canada T6P 1S5
Tel: (780) 440-2000

Fedmet Tubulars
1250-700 9th Avenue S.W.
Calgary, Alberta
Canada T2P 3V4
Tel: (403) 237-0955

Pioneer Pipe
1660 Lincoln Street
Suite 2300
Denver, Colorado
U.S.A. 80264
Tel: (303) 289-3201

Total Distributors
900 East Pecan
Sand Springs, Oklahoma
U.S.A. 74063-0517
Tel: (918) 245-5100

STEEL IMPORT/EXPORT

Wirth
1 Westmount Square
Suite 200
Montréal, Québec
Canada H3Z 2P9
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Sunbelt Group
1990 Post Oak Blvd.
Suite 1550
Houston, Texas
U.S.A. 77056-3813
Tel: (713) 840-0550



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